

The CFO Programme

M&A strategies and priorities
2021 Central Europe CFO Survey – supplement

This survey was conducted between November and December 2020 in 17 Central European countries: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia, with 590 CFO respondents.

Throughout 2020 - a year marked by pandemic uncertainty and lockdowns - mergers and acquisitions experienced quite a roller-coaster ride. In the first half of the year, lockdowns led to a sharp dive. But as soon as these restrictions started to lift, M&A soared back up.¹

Globally, companies announced a record \$1.4 trillion worth of deals in the post-lockdown months from June to October 2020, 84% higher than in the first five months of the year, leading to a total value of \$2.2 trillion worth of deals in the first 10 months of the year.²

The positive news on COVID-19 vaccines has also given a significant boost to corporate confidence - over \$40 billion worth of deals were announced during the week that first news about the high efficacy of coronavirus vaccines was reported.³ All regions and sectors benefitted from this resurgence. In particular, there was a strong uptick in the mega-deal (>\$5bn in value) category. Many were all-stock deals, signaling that acquirers want to preserve cash, in a way acknowledging some of the integration risks brought on by economic uncertainties.⁴

1 M. Balezou, C. Tse, K. Porter, "Deals Come Roaring Back as Executives Plot Post-Covid Future": <https://www.bloomberg.com/news/articles/2020-12-24/m-a-deals-come-roaring-back-as-executives-plot-post-covid-future>, December 2020, accessed on February 10th 2021.

2 The actual disclosed deal value was \$776.69 trillion for the period January to May 2020 and \$1,425.25 trillion for the period June to October 2020, which gives an increase of 83.5045% rounded off to 84%. Deloitte analysis based on data from Thomson One database, accessed on 13 November 2020.

3 Global M&A recovers on vaccine hopes, *The Financial Times*, 17 November 2020, accessed on 17 November 2020.

4 I. Macmillan, Dr. M. Coppola, S. Prakash, "M&A emerges from quarantine", *Deloitte Insights* 2021 https://www2.deloitte.com/content/dam/Deloitte/pl/Documents/Press/pl_DI_MA-emerges-from-quarantine.pdf, accessed on 12 February 2021.



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More than half of CFOs (56%) are highly or moderately confident that credits will be available at favourable conditions.

35% of CFOs aim to expedite the synergy capture for recently completed deals within up to 12 months.

Acquisition to accelerate digital transformation is the priority for the next 12 months for one in three of CFOs.

More than 20% of CFOs acknowledge that establishing trust with stakeholders, robust post-COVID scenario planning and accelerated post-merger integration are their top execution priorities.

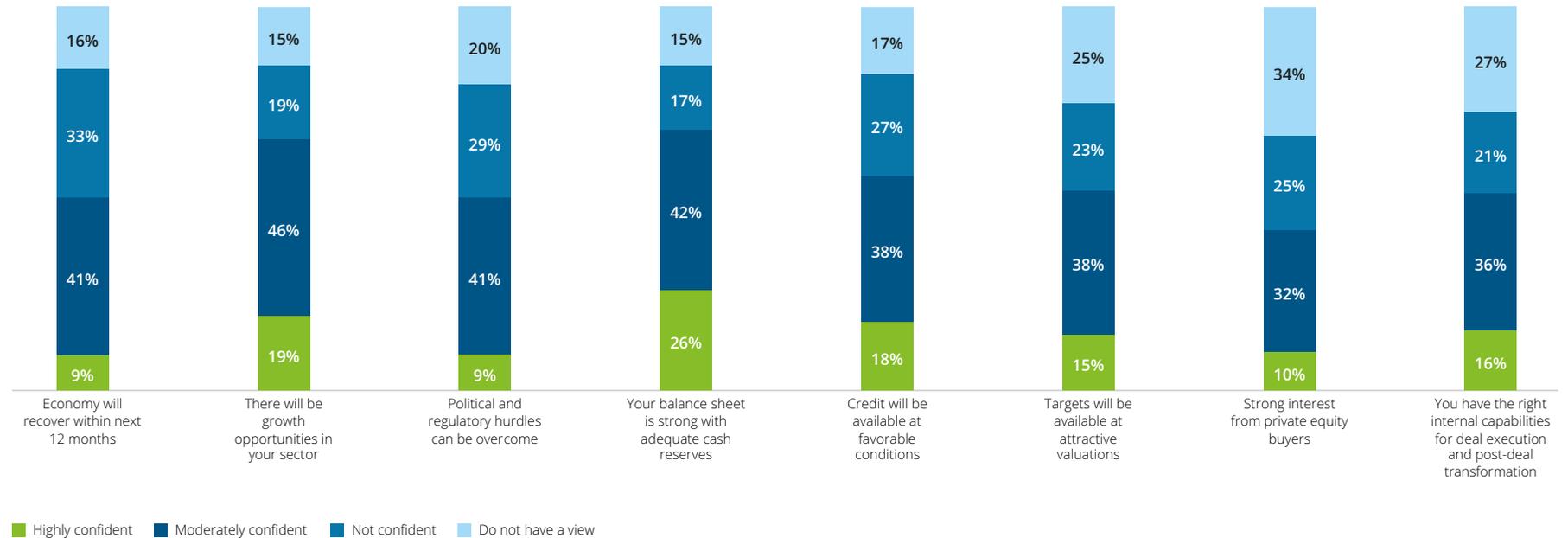
How certain factors are influencing M&A decisions

While some of the M&A activity recorded was due to companies resuming deals that were put on hold during the economic freeze generated by the different national lockdowns, a good proportion also reflected company efforts to transform and thrive in a post-pandemic world.

A quarter of CFOs report a high level of confidence in the strength of their balance sheets and confirm they have adequate cash reserves. This is especially true for Business & Professional Services (44%) and Financial Services (39%) CFOs please check pages 7-10. It can be, to some extent, attributed to a tendency towards cash preservation following the outbreak of the Covid-19 pandemic and an already expected, prior to 2020, financial slowdown.

There is not much hope that the economy will recover within next 12 months – only one in ten of our respondents is highly confident about such a scenario, however, 40% are moderately optimistic. These views do not differ significantly throughout industries (from the lowest values at 3% in Energy, Utilities and Mining to the highest of 15% in Consumer Business).

How confident are you of the following factors that could influence your M&A decision?



CFOs representing the Technology, Media and Telecommunication (39%) and Life Sciences (31%) sectors, as well as Business and Professional Services (28%) are highly confident there will be growth opportunities in their industries. Energy, Utilities and Mining professionals are less optimistic – with one in three of them confirming they are not confident such opportunities will appear.

As there are no signs of an imminent reversal of the current highly accommodative monetary policy, more than half of CFOs (56%) are highly or moderately confident that credits will be available at favourable conditions.

52% of CFOs report confidence in their internal deal execution and integration capabilities. Almost the same proportion of the respondents (53%) are also highly or moderately confident that acquisition targets will be available at favourable valuations. However, as their companies' business models may be changing, finance leaders need to evaluate prospective deals on their strategic fit, not just attractive valuations.

In order to thrive in the post-pandemic world, companies need to reinvent themselves. The survey results confirm that M&A is likely to play a major role in this transformative process. Companies have the daunting task of navigating their core businesses amid major uncertainties, while remaining alert to new growth M&A opportunities.

How confident are you of the following factors that could influence your M&A decision?

Business & Professional Services	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	9%	47%	31%	13%
There will be growth opportunities in your sector	28%	38%	22%	13%
Political and regulatory hurdles can be overcome	13%	34%	38%	16%
Your balance sheet is strong with adequate cash reserves	44%	34%	16%	6%
Credit will be available at favorable conditions	28%	38%	19%	16%
Targets will be available at attractive valuations	31%	44%	13%	13%
Strong interest from private equity buyers	25%	28%	25%	22%
You have the right internal capabilities for deal execution and post-deal transformation	25%	34%	25%	16%

Construction	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	10%	41%	27%	22%
There will be growth opportunities in your sector	17%	49%	17%	17%
Political and regulatory hurdles can be overcome	7%	44%	29%	20%
Your balance sheet is strong with adequate cash reserves	20%	41%	22%	17%
Credit will be available at favorable conditions	20%	34%	32%	15%
Targets will be available at attractive valuations	15%	41%	20%	24%
Strong interest from private equity buyers	7%	39%	24%	29%
You have the right internal capabilities for deal execution and post-deal transformation	17%	41%	20%	22%

How confident are you of the following factors that could influence your M&A decision?

Consumer Business	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	15%	33%	38%	14%
There will be growth opportunities in your sector	16%	45%	23%	15%
Political and regulatory hurdles can be overcome	7%	38%	27%	27%
Your balance sheet is strong with adequate cash reserves	21%	38%	26%	15%
Credit will be available at favorable conditions	16%	40%	29%	15%
Targets will be available at attractive valuations	10%	34%	32%	25%
Strong interest from private equity buyers	15%	29%	26%	30%
You have the right internal capabilities for deal execution and post-deal transformation	14%	34%	27%	25%

Energy, Utilities, Mining	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	3%	38%	50%	9%
There will be growth opportunities in your sector	9%	47%	34%	9%
Political and regulatory hurdles can be overcome	6%	44%	34%	16%
Your balance sheet is strong with adequate cash reserves	28%	38%	19%	16%
Credit will be available at favorable conditions	19%	38%	25%	19%
Targets will be available at attractive valuations	9%	44%	25%	22%
Strong interest from private equity buyers	3%	44%	19%	34%
You have the right internal capabilities for deal execution and post-deal transformation	16%	44%	16%	25%

How confident are you of the following factors that could influence your M&A decision?

Financial Services	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	13%	36%	33%	19%
There will be growth opportunities in your sector	16%	55%	18%	11%
Political and regulatory hurdles can be overcome	16%	43%	26%	15%
Your balance sheet is strong with adequate cash reserves	39%	46%	4%	11%
Credit will be available at favorable conditions	25%	36%	21%	18%
Targets will be available at attractive valuations	20%	43%	16%	21%
Strong interest from private equity buyers	16%	29%	25%	30%
You have the right internal capabilities for deal execution and post-deal transformation	29%	31%	16%	24%

Life Sciences	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	8%	54%	31%	8%
There will be growth opportunities in your sector	31%	62%	0%	8%
Political and regulatory hurdles can be overcome	8%	62%	23%	8%
Your balance sheet is strong with adequate cash reserves	8%	38%	31%	23%
Credit will be available at favorable conditions	0%	46%	31%	23%
Targets will be available at attractive valuations	8%	38%	31%	23%
Strong interest from private equity buyers	8%	15%	46%	31%
You have the right internal capabilities for deal execution and post-deal transformation	0%	31%	54%	15%

How confident are you of the following factors that could influence your M&A decision?

Manufacturing	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	5%	48%	27%	20%
There will be growth opportunities in your sector	16%	46%	16%	22%
Political and regulatory hurdles can be overcome	7%	35%	30%	27%
Your balance sheet is strong with adequate cash reserves	24%	39%	17%	20%
Credit will be available at favorable conditions	14%	35%	29%	22%
Targets will be available at attractive valuations	12%	35%	20%	33%
Strong interest from private equity buyers	6%	29%	26%	39%
You have the right internal capabilities for deal execution and post-deal transformation	10%	32%	24%	33%

Technology, Media, Telecommunication	Highly confident	Moderately confident	Not confident	Do not have a view
Economy will recover within next 12 months	9%	52%	33%	6%
There will be growth opportunities in your sector	39%	44%	11%	6%
Political and regulatory hurdles can be overcome	13%	56%	22%	9%
Your balance sheet is strong with adequate cash reserves	26%	46%	13%	15%
Credit will be available at favorable conditions	22%	33%	33%	11%
Targets will be available at attractive valuations	19%	35%	28%	19%
Strong interest from private equity buyers	11%	44%	17%	28%
You have the right internal capabilities for deal execution and post-deal transformation	15%	46%	13%	26%

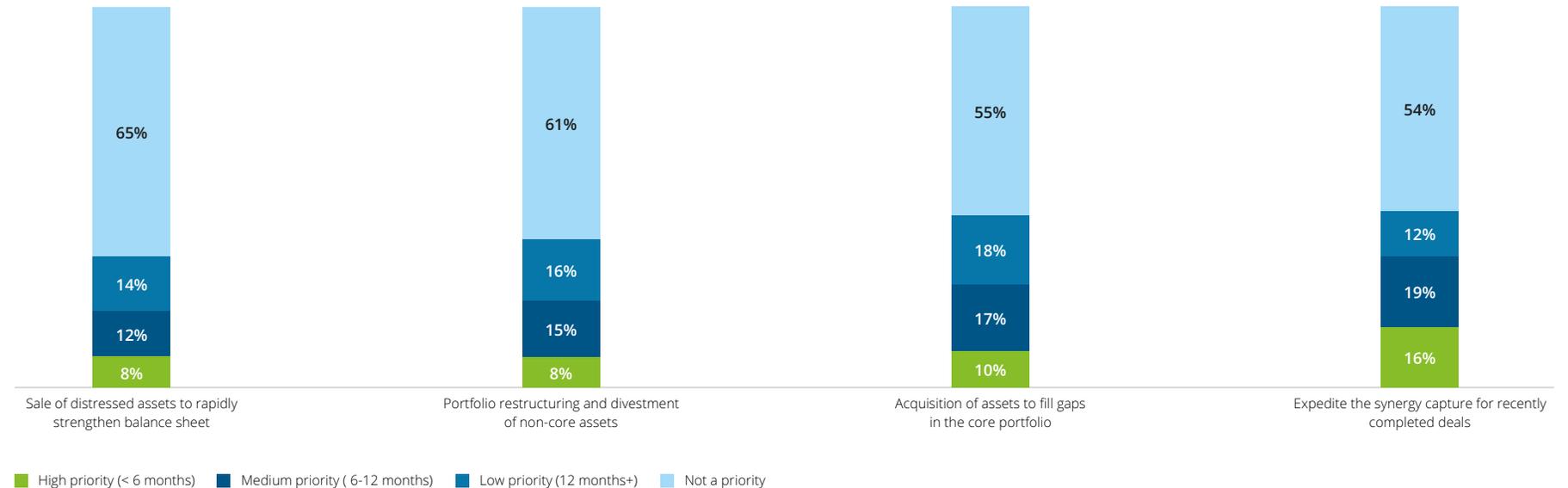
M&A priorities and pathways

Our research shows that CFOs are using a combination of defensive and offensive strategies to safeguard their position in the market, accelerate recovery, and position themselves to achieve market leadership.

35% of CFOs aim to expedite the synergy capture for recently completed deals within the next 12 months. That is because companies that have recently completed acquisitions need to deliver post-deal shareholder value under new and challenging conditions. More than a quarter of respondents indicate that the acquisition of assets to fill gaps in their core portfolio is a priority for the next year. Companies may also need to consider co-investments with private equity to pursue deals that align with core strategic priorities.

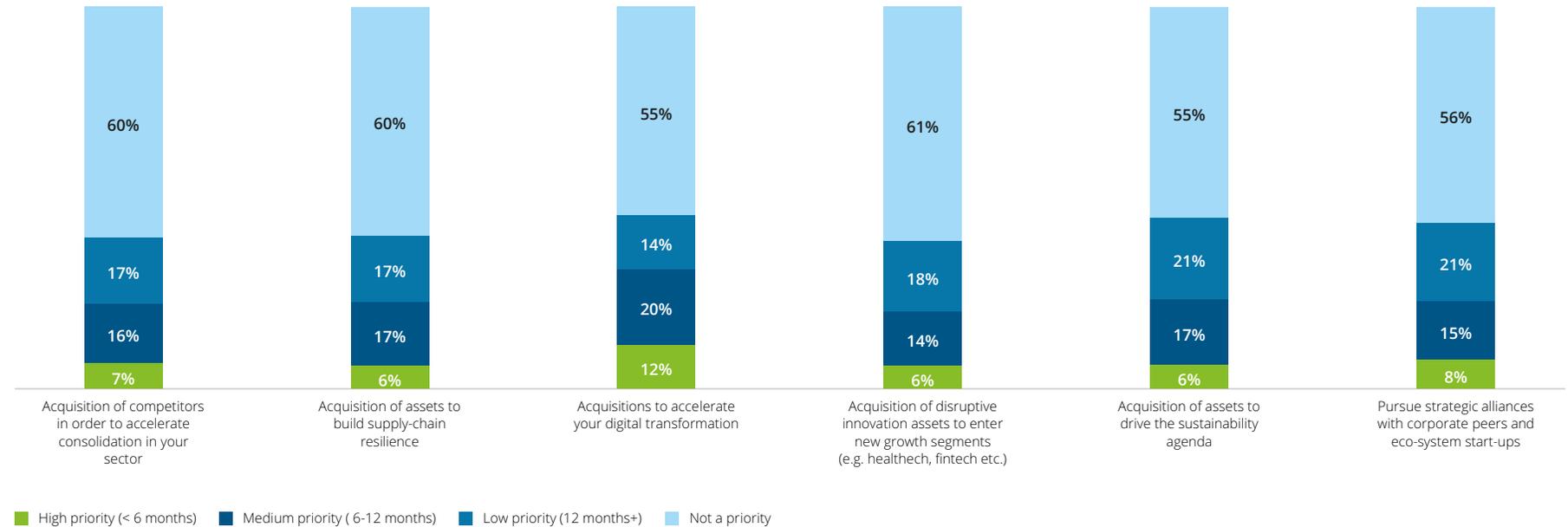
One in five CFOs confirm that within the next 12 months their companies plan to take more radical actions and sell distressed assets to claim value from loss-making divisions and preserve a viable core business. Such steps require a high rate of execution to maximise value. Portfolio restructuring and divestment of non-core assets is the priority for almost a quarter of CFOs surveyed. Such actions are undoubtedly essential to increase capital efficiency and free up scarce resources.

To what extent are the following M&A objectives a priority for your company defensive strategies?



Acquisitions to accelerate digital transformation is a priority for the next 12 months for one in three of CFOs. This is especially high priority for companies whose existing business models were adversely impacted by the pandemic. Many acquired and adopted new technologies in order to rapidly transition to digital operating models in response to lasting changes in customer behaviours. During pandemic and post-pandemic times companies should look for new market opportunities by acquiring their underperforming peers and high potential start-ups that are struggling under market constraints. Not surprisingly, valuations for many businesses like this are down and sellers have readjusted expectations, thus providing a unique opportunity to acquire and consolidate the market at attractive prices. Intentions of acquisitions of competitors in order to accelerate consolidation in their sectors has a high position on the agendas of one in four of Central European CFOs. The same proportion of respondents indicate that in order to restart and normalise their supply chains, they plan to conduct market acquisitions. M&A activities can help restore and protect vital supply chain links, in addition to helping build new and sustainable supply chain systems.

To what extent are the following M&A objectives a priority for your company offensive strategies?



As the Covid-19 pandemic marked a change in corporate expectations and strategies - from ethical sourcing and production to community leadership, M&A activities can provide an expedited pathway for companies to progress their sustainability goals. Acquisitions of assets to drive the sustainability of their agenda is a high or medium time priority for one in four of the CFOs surveyed. The same proportion considers alternatives to traditional M&A activities in order to reduce risk and capital outlays by pursuing strategic alliances with corporate peers and start-ups.

Disruptive technologies have and will continue to have a major influence on post-pandemic structural change in all sectors. 20% of CFOs surveyed confirm acquisitions of disruptive innovation assets will be a priority for their companies in the next 12 months. Acquiring these assets will give them access to talent and digital operating models, which are essential for the long-term transformation of their businesses and will enable them to enter new growth segments.

In addition to traditional M&A, a wide range of inorganic growth strategies, such as cross-sector alliances, co-investments with private equity, venture investment in disruptive technologies and partnerships with governments have become significant.

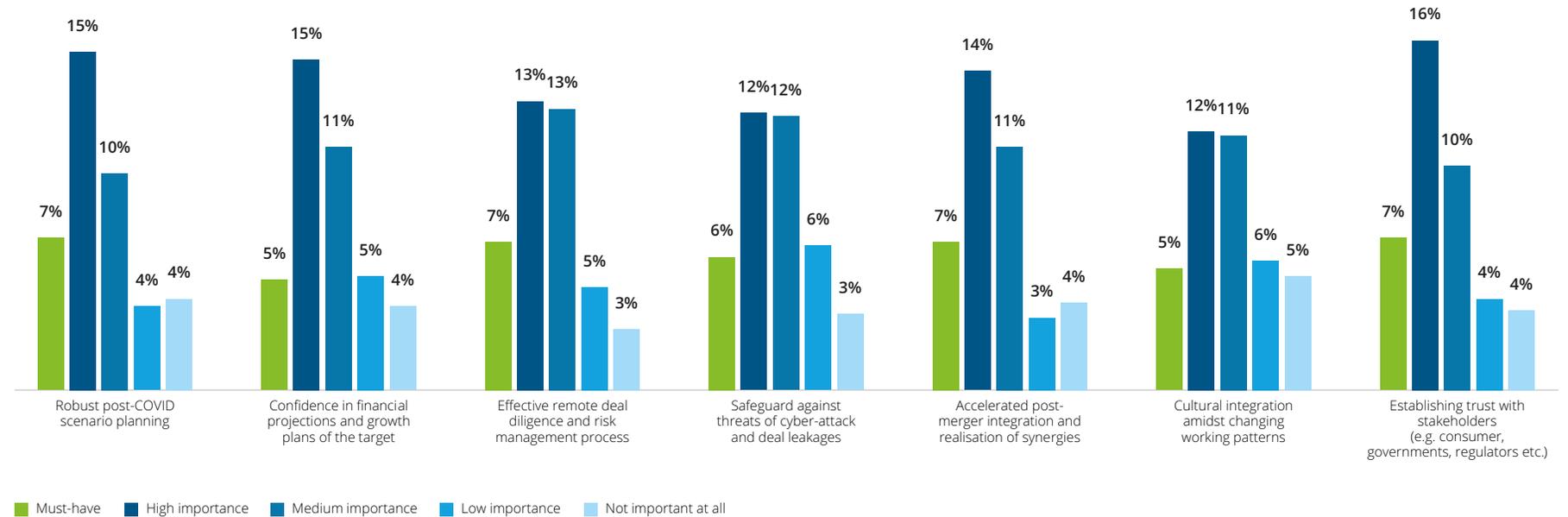
Balancing priorities

The Covid-19 pandemic fundamentally changed the environment for transacting M&A deals. The use of digital and analytical tools is likely to remain an integral part of the entire M&A process, from sourcing and execution to post-deal value creation.

More than 20% of CFOs acknowledge that establishing trust with stakeholders, robust post-COVID scenario planning, and accelerated post-merger integration are their top execution priorities. When talking about post-Covid scenarios, it's worth pointing out that for forecasting purposes, there is a need to focus on different projections across a range of pandemic durations. The due diligence process may also need to be extended, focusing on areas where vulnerabilities may have been exposed, including the impact of changing scenarios on valuations, supply chains or IT infrastructure. Gaining confidence in the finances and growth plans of possible targets is a must-have or of high importance for 20% of respondents.

It might be surprising to see that only one fifth of respondents indicate that having effective, remote deal diligence processes as fundamental or high priority. The virtual environment is expected to remain central to deal-making for the foreseeable future. The volume of deals done in 2020 (in light of lockdowns and social distancing) means that companies used digital tools in their M&A process.

What are your M&A execution priorities?



The consistent use of predictive analytics, artificial intelligence, and automation technologies in the post-deal value creation process can help extract deeper insights into business domains, identify risks and uncover new synergy opportunities.

In reference to the role that virtual environments currently play and will play into deal-making, it might also be unexpected to learn that protecting against cyber risks is rather low on the Central European CFOs' agendas, with less than 20% identifying it as a must-have or top priority for their organizations.

The post pandemic world is expected to unleash structural and systemic changes, and it is widely expected that recovery will be highly asymmetric across regions and sectors. Companies will need to decide the direction of their strategy, identify the new capabilities required, and prioritise the markets where they need to operate in order to drive growth and profitability.

What are your M&A execution priorities?

Business & Professional Services	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	31%	3%
Confidence in financial projections and growth plans of the target	34%	0%
Effective remote deal diligence and risk management process	25%	6%
Safeguard against threats of cyber-attack and deal leakages	19%	16%
Accelerated post-merger integration and realisation of synergies	25%	0%
Cultural integration amidst changing working patterns	25%	9%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	22%	3%

Construction	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	32%	2%
Confidence in financial projections and growth plans of the target	34%	5%
Effective remote deal diligence and risk management process	24%	10%
Safeguard against threats of cyber-attack and deal leakages	22%	7%
Accelerated post-merger integration and realisation of synergies	15%	10%
Cultural integration amidst changing working patterns	24%	15%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	22%	7%

What are your M&A execution priorities?

Consumer Business	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	12%	12%
Confidence in financial projections and growth plans of the target	10%	12%
Effective remote deal diligence and risk management process	15%	11%
Safeguard against threats of cyber-attack and deal leakages	8%	16%
Accelerated post-merger integration and realisation of synergies	10%	14%
Cultural integration amidst changing working patterns	10%	15%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	16%	8%

Energy, Utilities, Mining	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	25%	16%
Confidence in financial projections and growth plans of the target	19%	19%
Effective remote deal diligence and risk management process	25%	9%
Safeguard against threats of cyber-attack and deal leakages	31%	16%
Accelerated post-merger integration and realisation of synergies	38%	6%
Cultural integration amidst changing working patterns	28%	16%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	38%	6%

What are your M&A execution priorities?

Financial Services	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	23%	8%
Confidence in financial projections and growth plans of the target	21%	10%
Effective remote deal diligence and risk management process	20%	8%
Safeguard against threats of cyber-attack and deal leakages	21%	11%
Accelerated post-merger integration and realisation of synergies	31%	9%
Cultural integration amidst changing working patterns	20%	11%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	26%	10%

Life Sciences	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	23%	8%
Confidence in financial projections and growth plans of the target	15%	15%
Effective remote deal diligence and risk management process	15%	8%
Safeguard against threats of cyber-attack and deal leakages	23%	8%
Accelerated post-merger integration and realisation of synergies	8%	8%
Cultural integration amidst changing working patterns	23%	8%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	15%	8%

What are your M&A execution priorities?

Manufacturing	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	20%	8%
Confidence in financial projections and growth plans of the target	22%	7%
Effective remote deal diligence and risk management process	18%	7%
Safeguard against threats of cyber-attack and deal leakages	20%	8%
Accelerated post-merger integration and realisation of synergies	24%	6%
Cultural integration amidst changing working patterns	18%	8%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	21%	10%

Technology, Media, Telecommunication	Must-have & High importance	Low importance & Not important at all
Robust post-COVID scenario planning	20%	7%
Confidence in financial projections and growth plans of the target	15%	6%
Effective remote deal diligence and risk management process	22%	4%
Safeguard against threats of cyber-attack and deal leakages	17%	2%
Accelerated post-merger integration and realisation of synergies	17%	2%
Cultural integration amidst changing working patterns	11%	11%
Establishing trust with stakeholders (e.g. consumer, governments, regulators etc.)	20%	4%

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